

Message Text

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ACTION ARA-10

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TO SECSTATE WASHDC 3233

INFO AMEMBASSY BRASILIA

AMCONSUL SAO PAULO

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SUBJ: GOB ANNOUNCES NEW OFF-SHORE OIL DISCOVERIES

REF: 75 BRASILIA 4265

1. SUMMARY: DURING PAST THREE WEEKS GOB HAS ANNOUNCED
FOUR NEW PETROLEUM DISCOVERIES ON BRAZIL'S CONTINENTAL SHELF.
ACCORDING TO MINELAND ENERGY MINISTER SHIGEAKI UEKIN

RESERVES ON ONE OF THE FORMATIONS DRILLED, LOCATED IN CAMPOS
BASIN OFF-SHORE STATE OF RIO DE JANEIRO, COULD RANGE FROM
240-900 MILLION BARRELS. ALTHOUGH THE PRESS HAS HIGHLIGHTED
NEWS OF THE DISCOVERIES, MOST LOCAL OBSERVERS ARE MAINTAINING
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A LET'S-WAIT-AND-SEE ATTITUDE IN VIEW OF THE POSSIBLY HASTY

AND INFLATED CLAIMS MADE BY UEKI AND OTHER GOB OFFICIALS
FOLLOWING PREVIOUS OFF-SHORE DISCOVERIES. END SUMMARY.

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2. THE MOST IMPORTANT OF THE FOUR NEW STRIKES APPEARS TO BE
PIONEER WELL ON STRUCTURE DENOMINATED NAMORADO IN CAMPOS BASIN,
LOCATED IN 166-METER WATERS 8 MK SOUTH OF THE GAROUPA
FORMATION DISCOVERED SLIGHTLY MORE THAN ONE YEAR AGO (SEE
REFTEL). STRIKE WAS MADE BY CYCLONE DRILLING SHIP OF PETRO-
BRAS, THE GOB-OWNED OIL COMPANY. MINISTER UEKI STATED
ATAT 15-20 GEOLOGICALLY SIMILAR STRUCTURES WERE LOCATED IN
CAMPOS BASIS. (IN EARLIER STATEMENTS HE HAD REFERRED TO
12-14 STRUCTURES.)

3. PETROBRAS ALSO ANNOUNCED STRIKE ON ANOTHER NEWLY DRILLED
CAMPOS STRUCTURE, DENOMINATED BADEJO, BUT NO DETAILS GIVEN.
(ONE YEAR AGO PETROBRAS ALSO DISCOVERED OIL ON PARGO, A
FOURTH STRUCTURE IN THE GASIN.)

4. TWO OTHER REPORTED NEW DISCOVERIES ARE TAINHA, LOCATED
OFF SERGIPE COAST, WHICH TESTED AT RATE OF 2,004; BPD, AND
CAVALA, OFF ALAGOAS COAST, WHICH TESTED (WITH A PARTIAL BLOCK-
AGE) 600 BPD, WITH INDICATIONS OF POSSIBLE 1,500 BPD.

5. ACCORDING TO UEKI AND TO PETROBRAS STATEMENTS, NAMORADO TESTS
WERE CSNDUCTED IN THREE SANDSTONE ZONES INDICATING TOTAL PRO-
DUCTION OF 8,440 BPD OF OIL WITH AVERAGE API GRADE OF 28. PRE-
LIMINARY CALCULATIONS INDICATE RECOVERABLE RESERVES OF 20 MILLION
BBL FROM A ONE-SQ-KM AREA. THE NAMORADO STRUCTURE IS THOUGHT TO
BE ABOUT 12 SQ KM, BUT MIGHT BE AS LARGE AS 45 SQ KM, DEPENDING
ON THE SIZE OF AN ADJACENT FORMATION, WHERE TWO NEW DRILLING
LOCATIONS HAVE BEEN APPROVED. INTERPOLATING FROM THOSE DATA,
UEKI ESTIMATED POTENTIAL RESERVES RANGING BETWEEN 240 MILLION
BBL AND 800-900 MILLION BBL, BUT STRESSED THAT ADDITIONAL DRIL-
LING MUST BE CONDUCTED TO PROVE RESERVES. HE ALSO NOTED THAT
BENEATH NAMORADO'S SANDSTONE DEPOSITS LAY PETROEUM-BEARING MACAE
LIMESTONE FORMATIONS SIMILAR TO THOSE OF GAROUPA, BUT THEY ARE
CURRENTLY CONSIDERED TO BE OF SUB-COMMERCIAL VALUE. UEKI ADDED
THAT IT IS NOT YET KNOWN WHETHER THE NAMORADO AND GAROUPA FOR-
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MATIONS ARE INTER-CONNECTED.

6. FIRST NAMORADO
SANDSTONE ZONE TESTED 2,520 BPD, THE SECOND
3,590 BPD, AND THE THIRD 2,330 BPD. THE THREE PRODUCING ZONES
ARE LOCATED BETWEEN 2,975 AND 3,080 METER DEPTH. WITHIN THAT
105-METER INTERVAL, 45 METERS CONTAIN ROCK OF HIGH POROSITY.

7. A WRAP-UP OF BRAZIL'S PETROLEUM PERFORMANCE IN 1975, OUTLOOK FOR THE FUTURE, AND CURRENT STATUS OF RISK CONTRACTS WITH FOREIGN OIL COMPANIES WILL FOLLOW BY SEPTTEL.

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8. COMMENT: ALTHOUGH THE NEW PETROLEUM DISCOVERIES, ESPECIALLY NAMORADO, HAVE DRAWN HEAVY PRESS ATTENTION, THEY ARE GENERATING SURPRISINGLY LITTLE EXCITEMENT AMONG RIO PETTOLEUM COMPANIES OR THE BUSINESS COMMUNITY, PROBABLY FOR BOY-WHO-CRIED-WOLF REASONS. DURING THE PAST TWO YEARS PETROLEUM HAS DOMINATED THE HEADLINES ON A NEAR-DAILY BASIS, WITH REPORTS OF OIL BEING DISCOVERED HERE, THERE AND EVERYWHERE, NOT TO MENTION THE EMOTIONAL BUILD-UP TO THE CONTROVERSIAL RISK CONTRACT DECISION. THE FACT IS THAT THE PUBLIC MAY NOW BE SUPER-SATURATED WITH PETROLEUM NEWS, MUCH OF IT CONFLICTING. MOREOVER, FEW OBSERVERS HAVE AN APPRECIATION OF THE PAINSTAKING, LENGTHY EFFORTS IT TAKES TO PUT A NEWLY DISCOVERED OIL FIELD INTO FULL PRODUCTION EVEN IF THE RESERVES ARE PROVEN. SOME SEEM TO BE GROWING IMPATIENT WITH THE WHOLE BUSINESS, ESPECIALLY WHEN THEY READ THAT CURRENT PRODUCTION IS NOT ONLY NOT RISING, BUT MAY EVEN BE DECLINING. OF COURSE, THE GOB ITSELF HAS IN PART BEEN RESPONSIBLE FOR CREATING SKEPTICISM. IMMEDIATELY FOLLOWING THE DRILLING OF GAROUPA'S PIONEER WELL ONE YEAR AGO, MINISTER OF FINANCE SIMONSEN WAS QUOTED AS SAYING THAT RESERVES MIGHT REACH ONE BILLION BBL. MINISTER UEKI LATER ESTIMATED RESERVES AT 800 MILLION BBL AND PETROBRAS PRESIDENT GENERAL ARAKEN DE OLIVEIRA PREDICTED 600 MILLION BBL. NOW IT SEEMS (ACCORDING TO UNOFFICIAL REPORTS) THAT GAROUPA MAY BE MORE IN THE RANGE OF 200 MILLION BBL. ON THE OTHER HAND, IT COULD BE ARGUED THAT WITH THE PUBLIC RELATIONS EXPERIENCE IT HAS GAINED ON PETROLEUM MATTERS OVER THE PAST YEAR, THE GOB WOULD NOW CERTAINLY EXERCISE EXTREME CAUTION IN ITS ANNOUNCEMENTS TO AVOID ANY FURTHER CREDIBILITY GAPS. IF

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THAT IS SO, UEKI'S NAMORADO ESTIMATES MAY WELL BE REASONABLE, AT LEAST FROM HIS AND PETROBRAS'S POINT OF VIEW. EXPERIENCED GEOLOGISTS INFORM US, HOWEVER, THAT IT IS VERY RISKY INDEED TO ANNOUNCE ANY RESERVE ESTIMATES FOR AN ENTIRE STRUCTURE WHERE ONLY ONE WELL HAS BEEN DRILLED, REGARDLESS OF HOW PROMISING THE INITIAL TEST RESULTS APPEAR.

9. EMBASSY BRASILIA CONCURS.
DEXTER

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